The Nation and The Athenæum

Life Assurance Supplement

CONTENTS

THE A B C OF LIFE ASSURANCE

By D. S. SAVORY, M.A., F.I.A.

THERE can be but few people in this country who have not, at one time or another, been brought into touch with Life Assurance. Either they have effected a policy on their own life, or have had one taken out for them by a parent, or they may have received part of the proceeds of a policy effected by a relative, or at least they have been approached by an insurance agent.

Yet, in spite of all this, one finds in one's daily contact with people—even with people in constant touch with financial affairs—an astonishing amount of ignorance not only of the basic principles underlying the modern life-assurance contract, but even of the many different classes of policy available and of their adaptability to the various phases of present-day life.

THE NEED FOR LARGE FUNDS.

Many people do not understand why Life Assurance Companies hold such immense invested funds, while others are puzzled by the periodical announcements of large surpluses. As a result, both classes are left with a hazy idea that Life Assurance Companies make huge profits out of their business, and are apt, therefore, to view these offices with suspicion and to give up any idea of assuring their lives.

In order to understand how it is that an office is able to accumulate large funds, and why these funds are essential to its existence, we must consider the simplest form of life assurance, which is also the form in which it was first practised.

The simplest form of life assurance is that in which, in exchange for the receipt of a given sum, or premium, a company undertakes to pay another larger sum if the life assured should die within one year, at the end of which period the contract comes to an end.

Such policies, under the name of Term policies or Short Period policies, are still issued by most companies, and in certain special circumstances meet the requirements of the life assured. It is obvious, however, that their utility is but limited, and that they utterly fail to meet the case of a man who wishes to ensure a definite provision for his family after his death. If no other form of assurance were available, such a man would have year by year to effect a fresh contract.

But even in the case of a man who keeps perfectly healthy the danger of death within a year increases steadily with each increase in age attained. That being so, it is obvious that the sum that would have to be paid each year to the insurance company to induce it to undertake the risk would also have to increase year by year. These increases, while small at first, would grow very rapidly as advanced ages were attained, until at last the unfortunate policy-holder would find that he was quite unable to pay the premium demanded.

These objections to the annual contract as the sole form of life assurance soon became apparent, and the Companies devised the more modern form of permanent contract, with a level premium fixed at the outset.

Now, since the premium is a level one, while the risk is a steadily increasing one, it follows that the sum received in the early years must be more than sufficient to cover the risk run in those years, and—since the premium is assumed on the whole to be a fair one—it will be less than sufficient to cover, year by year, the risk run in the later years.

Thus in the early years of the contract the Company is able to accumulate funds, and these funds are absolutely necessary to enable it to meet its liabilities in the later years. The surpluses periodically declared by Life Assurance Companies are also due to the special character of the business. The premiums that would exactly provide the sums assured under the policies paid by an office as they became claims clearly depend on the mortality experienced amongst its policy-holders, on the rate of interest that the office earns on its funds, on the cost of carrying on the business of the office, and on the value of its investments.

Since an assurance contract may extend over forty or fifty years, there is ample room for wide fluctuations in each of these factors. The one thing that cannot vary is the premium to be received by the office. If the premiums fixed were inadequate, successive valuations would show a steadily increasing deficiency, and the collapse of the office would be inevitable. In fixing premiums, therefore, and in making periodical valuations, the Actuary must aim at the creation of a surplus, the amount of which will largely depend on the skill shown by the management in the selection of lives to be assured, in earning a satisfactory net rate of interest, in keeping expenses within the limits allowed, and, perhaps most important of all, in wisely investing the funds of the office. If the surpluses thus created were retained by the Company, some grievance would be justly felt; but in Mutual offices the whole, and in Proprietary offices the great bulk—usually 90 per cent., or even 95 per cent.—is divided amongst the participating policy-holders.

PARTICIPATING AND NON-PARTICIPATING POLICIES.

This brings us to the two great classes into which Life Assurance Policies can be divided, namely, participating and non-participating policies. At first all policies shared in profits, but later, to meet the demand for a lower initial cost, policies were issued at reduced rates, subject to the condition that no share in the profits should accrue to the policy-holders. In calculating the premiums under non-participating policies the considerations noted above when dealing with premiums generally have to be borne in mind, and consequently these contracts almost invariably produce some profit to the office, in many cases a very substantial profit.

In some Proprietary offices the whole of the profit arising from the Non-Participating branch is taken by the shareholders. In certain other Proprietary offices the with-profit policy-holders receive their proportion of the profits of this branch, but in Mutual offices they receive all the profits.

It follows, therefore, that with-profit policies, especially in a Mutual office, are in the end a more satisfactory investment, for all the profits earned, including even those produced by the non-participating policies, are divided amongst the holders of such policies, who thus get the utmost possible return for their money.

MAIN TYPES OF POLICY.

We have seen how, from issuing policies for one year only, offices came to issue policies for the whole term of life, with premiums payable until death. For many years this type of policy held the field. Even now it is gene-

rally used to provide for death duties, and can always be recommended to those who have an income—such as a pension or a life interest in an estate—which dies with them. By devoting a small portion of their income to paying the premium on such a policy, good provision can be made for their dependants, who might otherwise be left in penury on the failure of the income in question.

In other cases, however, where the bulk of a man's income is dependent on his own exertions, the payment of a premium in the later years of life might prove an irksome burden. Hence arose a demand for whole-life policies with limited premiums. Under these policies, while the sum assured is payable at death only, the maximum number of premiums payable is fixed from the outset at any figure that the policy-holder pleases. Thus the policy-holder knows the greatest amount that he can be called on to pay, and he knows that after the lapse of so many years he will be a free man with no more premiums to pay. These advantages are well worth the small additional annual cost, and explain the increasing demand for this class of policy of recent years.

ENDOWMENT ASSURANCES.

From Whole Life policies with limited premiums to Endowment Assurances, under which not only do the premiums cease at the end of a term of years, or at death if it occurs sooner, but the sum assured is payable under the same conditions, was but a step, though one which the Companies were very slow to make. An Endowment Assurance policy, in addition to furnishing some provision for a man's family in mitigation of the injury that would arise from his premature death, provides a safe and simple method of accumulating savings for his own old age. The ordinary member of the middle classes who saves from £50 to £100 per annum stands at an immense disadvantage if he tries to invest these small sums in Stock Exchange securities, and will do far better, both for himself and his family, if he devotes his savings to paying the premiums of an Endowment Assurance. For an Assurance Company with its ample resources is in a position to obtain the best advice, to watch the markets carefully, and so to spread its risks as to guard against capital loss in a way that is quite impossible for the ordinary investor.

A popular development of the Endowment Assurance has come much to the fore of recent years in the form of a policy to provide for the education of a child. The best contract for this purpose consists, indeed, of an Endowment Assurance on the life of the father, under which payment of the sum assured, instead of being made in one lump sum, is spread over the four or five years that the child will pass at a Public School. Where such a policy has been effected, the cost of education, instead of being concentrated in a few years, is spread over many, and the premature death of the father need not disturb the plans made for the education of the child.

THE MEANING OF "BONUS"

THERE is hardly anything which it is more important for the ordinary man who is contemplating life assurance to understand than the meaning of the mysterious word "Bonus," which figures so largely in all accounts of the subject. Yet even the insurance world itself might be astonished if it were to discover to how few members of the public this word conveys any definite idea whatever. Perhaps we may help a little to clear away the obscurity.

As has been pointed out in the preceding article, the rates of premium quoted by insurance companies for whole-life and endowment-assurance policies are very much on the safe side. This must be so, since the policies cover a long period of time, during which fundamental

conditions may change materially. The insurance societies must be strong enough to meet even very improbable changes of circumstances. On the other hand, if matters go reasonably well the societies, or at any rate the non-mutual ones, would obviously make an altogether undue profit at the expense of their policy-holders, if they were to retain the whole of the surplus income actually earned as compared with the very conservative estimate upon which they had reckoned in fixing the premiums. The system of Bonus has been devised as a means of giving back to the with-profit policy-holders either the whole of this surplus or the greater part of it, subject to a reasonable carry-forward.

In short, a with-profit policy-holder who takes out a policy for £1,000 is in all probability insuring himself for a somewhat larger sum. The bargain which the Insurance Society makes with him is made up of two parts: a promise to pay him £1,000 on the maturity of the policy, together with a further undefined sum dependent upon the Society's success during his period of membership of it.

There are, of course, many ways in which an Insurance Society could give its members the benefit of the surplus which it earns; for instance, by paying it out in cash, or by diminishing the annual premium payable. But after many years of experiment in different directions there is now a pretty general consensus in favour of what is called the "reversionary" Bonus system, by which additions are made from time to time to the sum assured, and are payable with it.

The declaration of a reversionary bonus at the rate of 1 per cent. per annum means that the amount of the ultimate policy payable to the policy-holder on maturity is increased by 1 per cent. for each year in respect of which such a bonus is declared. For example, if a policy-holder has taken out a policy for £1,000 and a bonus of 20s. per cent. per annum is declared one year later, that means that without his having to pay any increased premiums the sum for which he is insured has been increased by 1 per cent., namely, from £1,000 to £1,010. He does not receive any immediate cash down or any reduction of premiums, but the amount of his policy is increased in the way described.

SIMPLE VERSUS COMPOUND BONUS.

There is one further complexity: some societies declare what is called a simple bonus, others a compound bonus. A simple bonus of 20s. per cent. per annum means that the original sum insured, namely, £1,000 in the example given above, is increased by 1 per cent. A compound bonus of 20s. per cent. means that not only the original amount of the policy, but that original amount together with the sum by which previous bonuses have increased it, is augmented by 1 per cent. Thus, if the policy was originally for £1,000, and has accumulated £100 of bonus in the course of time, then a simple bonus of 20s. per cent. means that £10 is added to the total of the policy; whereas a compound bonus of 20s. per cent. means that £11, namely, 1 per cent. of £1,100, is added.

If bonuses are declared annually instead of triennially or quinquennially, then the benefit of the compound bonus as compared with the simple bonus is still more marked, since the sums are compounded annually instead of at intervals of three or five years.

The net result of the various systems can be illustrated as follows:—

A policy of £1,000 on which a simple bonus of 40s. per cent. is declared annually for thirty years increases to £1,600 at the end of the period; if a compound bonus at the same rate is declared quinquennially, the total comes to £1,772; if a similar compound bonus is declared annually, the final result comes to £1,811.

Most societies, whilst encouraging their policy-holders to take the benefit due to them in the form of reversionary bonuses as above, nevertheless give them the option of taking it immediately in cash or in reduction of premiums.

BONUS POLICY UNDER PRESENT CONDITIONS

By D. S. SAVORY, M.A., F.I.A.

FROM a period of heavy depreciation in securities, of rapid increase in the rate of income tax levied on interest earnings, and of the strain caused by War Mortality, life offices have passed into a period of rising security values, of declining income tax, and of much reduced mortality. Moreover, while the changes in the cost of transacting the necessary business of the offices have been less violent—being more under the control of the management—they have on the whole shown the same tendency to become less onerous.

These violent fluctuations have occurred in the comparatively brief space of nine to ten years. The result has been that after some six or seven years, during which the whole, or the great bulk, of the normal surplus earned by the offices had to be applied to repairing the havoc caused by depreciation, increased taxation, and war claims, we have had at least two years during which the offices have been able to announce exceptionally large surpluses.

It is not surprising to find that, just as considerable variation was shown in the methods adopted by the offices to meet the difficulties referred to above, a similar divergence of opinion has been disclosed by the treatment of the large surpluses recorded in the last two years.

QUINQUENNIAL VALUATIONS.

As regards the quinquennial valuations which took place at the end of 1922, this divergence was almost solely concerned with the question whether or no any distribution should be made in respect of the preceding quinquennium, viz., 1913-1917. Eight important life offices held quinquennial valuations as at the end of 1922, all of which had failed to declare any bonus as at the end of 1917.

Of these eight, three, in addition to declaring a normal rate of bonus for the quinquennium just closed, declared a reduced rate in respect of the period 1913-1917. In other respects the valuations of 1922 were more or less uninteresting from a comparative point of view.

There were no changes of valuation basis, no important indications as to future policy, and no exceptionally high rates of bonus.

A far better idea of the different ways in which different schools of thought believe that large surpluses should be dealt with is afforded by the valuations held as at the end of 1923.

Up to the time of the writing of this article valuation results had been announced by the Alliance, the British General, the National Mutual, the Scottish Provident, the Scottish Widows, the Standard, the United Kingdom Provident Institution, and the Yorkshire, as well as by those offices which hold annual valuations.

Five of the offices mentioned above had failed to declare any bonus in respect of the preceding valuation period, and not one of them has attempted to compensate its policy-holders by definitely declaring a bonus in respect of such period.

The United Kingdom Provident has, it is true, varied the rate of bonus declared according to the date of entry, and the Scottish Widows was careful to state that the balance of a special reserve set up in 1918 was now being divided by way of a special addition to the rate of bonus declared, so as to give some compensation to existing policy-holders for the absence of any bonus during 1914-1918.

The other offices have, however, been content to regard the preceding valuation period as a closed book and to deal only with the present and future.

The valuations of 1923 have also differed from those of 1922 in the rather more cautious attitude adopted in dealing with the available surplus.

The net rate of interest earned by life assurance offices during 1921-1923 has been markedly in excess of that earned in any similar period of modern times. What is perhaps even more remarkable is that an increased net yield has synchronized with a general appreciation in security values. The explanation is, of course, that the reduction in the rate of income tax from 6s. to 4s. 6d. in the £ has neutralized the effect of the lower gross rate of interest obtainable on new investments. The increase in the net rate of interest earned by the offices showed, however, a distinct falling-off in 1923 as compared with that earned in 1921 and 1922, and having regard to the constant efforts of the British Government to reduce the rate of interest payable on its loans, it seems probable that the next few years will see some reduction in the average net rate of interest earned by the offices.

These and similar considerations have no doubt prompted the greater conservatism that has been shown in the distribution of profits.

CHANGES IN VALUATION BASES.

A substantial proportion of the available profits has been, as a matter of fact, retained, either by a change in valuation bases, or by a large addition to the surplus carried forward. No fewer than three of the eight offices mentioned above have gone from a 3 per cent. to a 2½ per cent. valuation basis. Most of the others have increased the amount carried forward, the most conspicuous example being the National Mutual Life Assurance Society, which carried forward no less than £468,531 —approximately 15 per cent. of its total liabilities, and more than sufficient to maintain the present rate of bonus for the next seven years; while the Scottish Provident and the United Kingdom Provident have each retained an Investment Reserve of £300,000.

The change from a 3 per cent. to a 2½ per cent. valuation basis involves an increased reserve of very roughly 3 to 5 per cent. of the total liability; it also has the effect of increasing the margin between the rate of interest earned and that assumed in the valuation; moreover, such a valuation has come to be regarded by the public as giving the highest standard of security.

There are, however, objections to the change. One of these—which, incidentally, cannot be brought against the basis adopted by the Standard Life—is that the change reduces the margin between the office premium and that assumed in the valuation, and reduces the contribution formerly made by this margin to the valuation surplus. Another objection is that the premiums received in the early years of a policy are not nearly sufficient—even with the most favourable mortality—to meet the expenses incurred in securing the business and to provide the reserve required by this basis. The result is that every policy issued during a valuation period, so far from contributing to the surplus, constitutes a charge on that surplus, and we have the anomalous position that the more successful an office is in obtaining new business the greater will be its embarrassment at the next valuation. It is perhaps more difficult for the Directors of an office to adhere to the old valuation basis and to carry forward an exceptionally large surplus, for this is apt to lead to a demand from the policy-holders for a yet larger distribution, but under present-day conditions it seems the more satisfactory method. The increased carry-forward strengthens the position of the office just as well as the change in valuation basis; and whereas under this plan the policy-holder can see by exactly how much the position has been strengthened, under the other plan he can have only the very vaguest idea. Similarly the increased carry-forward increases the interest margin, for the whole of the interest earned on the sum carried forward goes to swell the surplus. In addition, by retaining the old valuation basis the old sources of profit remain undisturbed, and the volume of new business aimed at will be regulated with regard to the Company's welfare as a whole and not by any question of valuation strain. A valuation which shows the actual value of the investments held, and the actual surplus in hand, gives the policy-holder exactly the information he is entitled to have. The position of the Company cannot change for the worse without the policy-holder being made aware of such change, whereas if valuation bases are changed and the value of securities is merely given as " at or under cost price," or " less than the market value after allowing for the investment reserve," the position of a company can be radically altered without the policy-holder being aware of the change.

MORE FREQUENT VALUATIONS.

Another important change in present-day bonus policy is the tendency to reduce the inter-valuation period. Prior to 1909 septennial valuations were not uncommon, but the 1909 Act reduced the maximum inter-valuation period to five years. All the big Industrial Life Offices hold annual valuations, but the ordinary Life Offices have been very slow to follow suit. Valuations are now made every three years by the Atlas, the Standard, and the United Kingdom Provident Institution; while annual valuations and distributions of surplus are made by the London Life, the Metropolitan, the National Mutual, the Provident Association of London, and the Wesleyan and General. There seems little doubt that the stress of competition will compel other offices to adopt annual valuations, which are undoubtedly much more attractive to the policy-holder.

Another feature of recent years has been the increasing popularity of the compound bonus. Of the eight offices mentioned above, five declared their bonuses on the compound system, two on special plans which provide larger bonuses on the older policies, and only one office declared a simple reversionary bonus.

Excluding the offices which declare bonuses on special systems which do not lend themselves to a straightforward comparison, the bonus declarations made to date in the current year may be compared as under:—

	Rate of Bonus.	
MUTUAL OFFICES.		
National Mutual	42s. % p.a.	Compound.
Scottish Provident	38s. % p.a.	Compound.*
Scottish Widows	40s. % ,,	,,
United Kingdom	38s. % ,,	,,
PROPRIETARY OFFICES.		
Alliance	34s. % p.a.	Compound.
British General	32s. % ,,	,,
Standard	35s. % ,,	Simple.

* Endowment Assurances only. Bonuses on whole-life policies declared on a special system.

THE AMOUNT OF SUM ASSURED AND BONUSES OBTAINABLE IN THE PRINCIPAL LIFE OFFICES FOR AN ANNUAL PREMIUM OF £10.

INASMUCH as the following table shows what each Office offers for a given annual premium, it appears to us to provide a fair means of comparing one office with another. The estimated amounts of the sum assured and bonuses are based on the assumption that future bonuses will be maintained throughout the period of assurance, either at the last declared pre-war rate of bonus, or at the latest declared rate, whichever is the greater.

A note has been made where exceptional bonus declarations have been accompanied by a statement that it is not to be expected that they will be maintained.

The British Life Offices have not only passed through the War period practically unscathed, but they are to-day in a position of exceptional strength with greatly improved bonus prospects. For this reason it is felt that the assumption referred to above is fully justified. At the same time it must be borne in mind that the figures given in the table are estimates only and cannot be guaranteed.

Office.	Endowment Assurance. Age at entry 30 next b'day. Age at maturity 55.	Whole Life Assurance. Age at entry 30 next b'day. Age at death (assumed) 65.
	£	£
Abstainers and General ...	General Section, 341	648
" " " ...	Temperance " 359	745
Alliance ...	370	720
Atlas (a) ...	384	750
Australian Mutual Provident ...	433	986
Britannic ...	360	683
British Equitable ...	General Section, 318*	562*
" " ...	Temperance " 328*	584*
Caledonian ...	363	647
Canada Life ...	370	708
Clerical, Medical, and General ...	357	699
Colonial Mutual ...	380	712†
Commercial Union ...	364	653
Eagle Star and British Dominions ...	General Section, 333	613
" " " " ...	Temperance " 319	563
Equitable ...	375	719
Equity and Law ...	357*	649*
Friends Provident and Century ...	356*	715*
General ...	331	614
General Accident ...	348*	621*
Gresham ...	326*	550*
Guardian ...	361*	649*
Law Union and Rock ...	380*	744*
Legal-General ...	333	598
Life Association of Scotland ...	347*	624*
Liverpool and London and Globe ...	352	647
London and Scottish ...	308	554
" Assurance ...	362*	676*
" Life ...	399	780
Marine and General ...	370*	689*
Motor Union ...	General Section 345	625
" " ...	Temperance " 361	660
National Mutual ...	426	856
" Provident ...	363	678
National Mutual of Australia ...	403	816
North British and Mercantile (b) ...	354*	665*
Northern (c) ...	348*	629*
Norwich Union ...	355*	665*
Pearl ...	355	665
Phœnix ...	354*	652*
Provident Mutual ...	358	663
Prudential ...	355	687
Refuge ...	366	676
Royal ...	343	626
" Exchange ...	348*	654*
Scottish Amicable ...	369*	694*
" Equitable ...	359	Premiums cease 657 at age 75.
" Life ...	361*	680*
" Provident (d) ...	377	701
" Temperance and British General ...	General Section, 370	694
" " " " ...	Temperance " 363	785
" Union and National ...	340	610
" Widows (e) ...	375*	694*
Standard ...	356	666
Sun ...	General Section 352	640
" ...	Temperance " 361	673
Sun Life of Canada ...	361	675†
United Kingdom ...	General " 371	722
" " ...	Temperance " 380	760
Wesleyan and General ...	357	678
Yorkshire ...	General Section 363	674
" ...	Temperance " 366	690

* In these cases the last pre-war rate of bonus has been assumed in making the calculations.

† 1923 results not yet out.

(a) The figures for this Office have been based on the increased rate of interim bonus which has recently been declared—*viz.*, 36s. per cent.

(b) A special compound reversionary bonus of £3 10s. 0d. per annum for years 1921-1922, was declared at December 31st, 1922. The Chairman stated at the Annual Meeting: "We are never likely to declare so large a bonus again."

(c) A special bonus of 55s. per cent. per annum in respect of the three years ending December 31st, 1923, was recently declared. It is pointed out, however, in the Annual Report, that this must not be taken as a normal rate of bonus, and consequently it would not be proper to base thereon any estimate as to what the future bonuses on policies are likely to be.

(d) Whole Life Policies, sharing profits when the premiums, if accumulated at 4 per cent. would amount to the sum assured.

(e) The rate of bonus declared for the five years 1919-23 was at an exceptional rate and a repetition of it is not to be expected. The rate of intermediate bonus at present being allowed under Claims, *viz.*, 35s. per cent per annum compound, has been assumed in making the calculations.

INVESTMENT POLICY FOR INSURANCE COMPANIES

By J. M. KEYNES.

THE question of investment policy for Life Insurance Companies has been much under discussion in the last year or two. The issues which have been raised are the result, not so much of new ideas, as of new facts. The problem of wise investment, as it has presented itself since the war, is largely a new one, and the Life Insurance world has been slowly feeling its way to new principles suited to the new conditions.

What was the pre-war field of investment? Leaving aside real property and reversions, advances on policies, and the like, the chief categories were (1) mortgages, (2) a limited selection of Trustee securities, of which Consols was the main British Government Stock, (3) American Dollar securities, and (4) the better-class Bonds of certain foreign Governments and railways. If Companies were to keep up their average interest earnings to a satisfactory level, compatibly with not placing too much capital outside the first two classes mentioned above, there was not a very wide scope for varying the proportions invested in the different classes; and within each class there was not much scope for gaining advantage from moving from one security to another. Some companies, however, were finding it difficult to keep up a satisfactory interest yield, which sometimes induced them to put a proportion of their resources into second-class bonds of various kinds—investments which on the average have not turned out well.

During the war there was, of course, a big movement, both on public and private grounds, into the various new types of British Government securities which were being issued. Many companies disposed of almost the whole of their Dollar securities. Thus the end of the war found many companies with a far greater proportion of British Government securities in their hands than they had ever dreamt of holding in the past.

Not only is there now a much wider range of choice within the field of British Trustee securities than there was before, but the comparative suitability of the pre-war classes of investment has greatly changed. The margin of yield between first-class mortgages and British Government securities has narrowed. The yield on American Bonds no longer bears its old relation of superiority to the yield on sterling securities, apart from which doubts about the future course of exchange introduce a new and difficult factor. All our old ideas about the security of foreign Government bonds have been entirely upset, and the element of political risk must now be given far greater weight than formerly. Even some British Trustee stocks need a watchful eye, and doubts can reasonably be felt which before the war would have seemed unnecessary. Few investors, for example, care to hold a heavy amount of India Stocks, and, as we have seen lately, circumstances can arise in which even Colonial Stocks do not seem perfectly safe.

Thus the question of security itself cannot be settled by the old rules of thum which used to be deemed sufficient. The wise investor must now doubt all things, and constantly revise his ideas in accordance with changing events in the political world.

But not only do new risks require a more watchful eye. The range of choice within a given class of security gives new opportunities for obtaining an advantage through judicious transferences in accordance with the fluctuations which occur from time to time in relative prices. Above all, the choice between long and short dated British Government securities inevitably raises a problem of a constantly varying aspect. I suppose that in old days the choice between Mortgages and Consols had to be determined on much the same principles as the choice to-day between long and short dated securities. Essentially it is an eternal problem. But the range of choice actually available for investment, the shortest and longest dated securities and those of almost every intermediate date being available in large quantities, makes it practicable to act promptly on any considered opinion which may be reached.

Most companies compromise to a certain extent and never back any opinion, however plausible and well-founded it may seem, up to the full extent. Nevertheless, it is very unlikely that the same proportionate division of assets between long and short dated securities can always be right. It is bound to change in accordance with the fluctuations of the business world. Insurance companies have a special opportunity to take advantage of these fluctuations, because it seldom happens that they are under any necessity to diminish their aggregate holdings. An industrial firm which holds a portion of its liquid resources in gilt-edged securities, in order to enable it to finance its affairs in particularly brisk times, is inevitably a seller from time to time. In the same way banks are bound to vary the volume of their gilt-edged investments to balance corresponding variations in the opposite direction in the amount of their advances to their customers. When insurance companies sell, it is always to buy something else instead, which fact puts them in an extremely strong position for benefiting from the fluctuating demands of the rest of the market.

Thus it comes about that the management of an insurance company is almost inevitably driven, whether it likes it or not, into what has been termed lately "an active investment policy"; which, after all, is merely another name for being alive to the fact that circumstances change. Unfortunately, it is not possible to make oneself permanently secure by any policy of inaction whatever. The idea which some people seem to entertain that an active policy involves taking more risks than an inactive policy is exactly the opposite of the truth. The inactive investor who takes up an obstinate attitude about his holdings and refuses to change his opinion merely because facts and circumstances have changed is the one who in the long run comes to grievous loss. Particularly in these days, no one is so wise that he can foresee the future far ahead. Anyone who obstinately takes up the view that over the next twenty years the rate of interest is bound to fall, or is bound to rise, is going beyond the evidence. If he is to be wisely guided he must take a shorter view and be prepared constantly to change it as the tide of events ebbs and flows.

It is equally false to believe that one form of investment involves taking a view and that another one does not. Every investment means committing oneself to one particular side of the market. The holder of long-dated securities lays himself open to losses, which may be very large, through the depreciation of his capital; whilst the holder of short-dated securities equally lays himself open to earn a lower rate of interest than that on which he has calculated. No one can get both security of capital and security of income; yet it is a great mistake to think that an insurance company, which depends on both, can neglect either. It was the neglect of these principles in the period which elapsed between the era of cheap money in 1896 and 1897 and the beginning of the Great War, which involved the Companies in the serious capital losses which were then shown both in their annual accounts and in their valuation results. Capital depreciation is the great enemy of life assurance, and an "active" investment policy has for its object the avoidance of capital loss at least as much as the making of capital profits.

The ideal policy for an insurance company is to put itself, so far as it can, into a situation where it is earning a respectable rate of interest on its funds, whilst securing at the same time that its risk of really serious depreciation in capital value is at a minimum. This, of course, is obvious. But it must be equally obvious that there is no golden rule for this, no invariable method. And this itself is the reason why constant vigilance, constant revision of preconceived ideas, constant reaction to changes in the external situation, in short, "an active investment policy," seems to some of us an essential condition, and at the same time the most difficult and important branch, of the sound management of the great insurance societies and corporations which now administer so considerable a proportion of the national savings.

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